



MEMORANDUM

DATE: May 7, 2021

TO: USAID/Pakistan Mission Director, Julie A. Koenen

FROM: USAID OIG Asia Regional Office Deputy Assistant Inspector General for Audit, Christine M. Byrne /s/

SUBJECT: Closeout Audit of the Infrastructure Program Management Services for the Construction of Centers for Advanced Studies in Pakistan Managed by Qavi Engineers (Private) Limited, Task Order AID-391-TO-14-00007, July 1, 2016, to May 31, 2017 (5-391-21-001-N)

This memorandum transmits the closeout audit report on the Infrastructure Program Management Services for the Construction of Centers for Advanced Studies (CAS) in Khyber Pakhtunkhwa, Punjab, and Sindh (Task Order AID-391-TO-14-00007 under Contract AID-391-I-12-00003) managed by Qavi Engineers (Private) Limited (QEL). USAID/Pakistan contracted with the independent certified public accounting firm of KPMG Taseer Hadi & Co. to conduct the audit. The audit firm stated that it performed its audit in accordance with generally accepted government auditing standards and USAID Financial Audit Guide for Foreign Organizations. However, it did not fully comply with the requirements on having a continuing professional education program and quality control reviews. In addition, KPMG Taseer Hadi & Co. indicated that (1) the independent engineer it had engaged to carry out the engineering review was constrained to performing only a post completion review because construction work had been completed prior to the audit; (2) the audit findings related to the engineering review were based on the conclusions drawn by the independent engineer; and (3) it had not been previously engaged to perform an engineering review of the bill of quantities of the three CAS buildings. The audit firm is responsible for the enclosed report and the conclusions expressed in it. We do not express an opinion on QEL's cost representation statement; the effectiveness of its internal control; or its compliance with the contract terms and applicable laws and regulations.¹

¹ We reviewed the audit firm's report for conformity with professional reporting standards. Our desk reviews are typically performed to identify any items needing clarification or issues requiring management attention. Desk reviews are limited to review of the audit report itself and excludes review of the auditor's supporting working papers; they are not designed to enable us to directly evaluate the quality of the audit performed.

The audit objectives were to (1) express an opinion on whether QEL's cost representation statement for the period audited was presented fairly, in all material respects; (2) evaluate QEL's internal controls; (3) determine whether QEL complied with contract terms and applicable laws and regulations; and (4) assess whether QEL had taken adequate corrective actions on prior year audit recommendations. To answer the audit objectives, the audit firm reviewed program documents and procedures; examined the cost representation statement and supporting documents; obtained an understanding of the internal control system and assessed its effectiveness; tested compliance with contract terms and applicable laws and regulations; and assessed the status of prior year audit recommendations. The audit firm also performed procedures to address the mission's specific concerns related to determining whether (1) costs claimed in the final revised invoice No. 35 amounting to Rs 106,474,933 were properly accounted; (2) outstanding claims for the unapproved change orders were allowable, reasonable, and supported, and did commensurate with the value of the goods and services delivered and rendered to USAID; and (3) outstanding claims pending with QEL were reconciled with payables to subcontractors. The audit firm also sent confirmation letters to the vendors and confirmed, based on searches carried out on various websites, that the vendors were not on lists of entities deemed untrustworthy. The audit covered costs incurred of \$7,698,728 from July 1, 2016, to May 31, 2017.

The audit firm concluded that except for the effects of the questioned costs amounting to \$1,575,557 (\$1,573,877 ineligible and \$1,680 unsupported), the cost representation statement presented fairly, in all material respects, costs incurred under the contract for the period audited. The details of the questioned costs are summarized in Table I below.

Table I. Summary of Questioned Costs Included in the Cost Representation Statement

Finding Description	Ineligible Costs		Unsupported Costs		Reference	
	Rs ²	USD	Rs ²	USD	Finding & Page Nos.	
1 Inadequate or lack of record relating to competitive procurement of furnishing and equipment ³	11,959,369	114,109	-	-	9.2.1	57-58
	39,790,500	379,658	-	-	9.2.2	59-61
	36,800,000	351,124	-	-	9.2.3	62-64
	4,927,000	47,011	-	-	9.2.4	65-67
	32,909,651	314,005	-	-	9.2.5	68-70
	21,440,561	204,573	-	-	9.2.6	71-73
	147,827,081	1,410,480				
2 Change Orders not approved by USAID	23,255,697	145,348	-	-	10.2.1	85-86
3 Lack of competition in procurement of the branding and marketing Services	934,500	8,892	-	-	9.1.2	55-56
4 Charges not based on a reasonable basis of allocation of actual costs	-	-	176,000	1,680	9.1.1	53-54

² Rs used alternatively with PKR is the symbol for Pakistani Rupees.

³ Overcharges to USAID of \$533 for Findings 9.2.7 and 9.2.9, and \$620 for Finding 9.2.8, are included in the questioned costs in Findings 9.2.1 and 9.2.6, respectively. These costs were not questioned twice in the cost representation statement.

Finding Description	Ineligible Costs		Unsupported Costs		Reference	
	Rs ²	USD	Rs ²	USD	Finding & Page Nos.	
5 Overcharging of days ordered	68,514	654	-	-	10.1.1	84
General and Administrative (G&A)						
6 costs applied to the costs questioned in No. 1 (\$1,410,480)	890,425	8,503	-	-	9.2	50
TOTAL	172,976,217	1,573,877	176,000	1,680		
TOTAL QUESTIONED COSTS	Rs 173,152,217 or \$ 1,575,557					

Concerning internal control, the audit firm identified 15 material weaknesses in internal control, of which 11 are associated with the questioned costs in the cost representation statement summarized in Table 1 above (Findings 9.1.1-.2, 9.2.1-.9). The audit firm also identified seven material instances of noncompliance, of which two are associated with the questioned costs in the cost representation statement also summarized in Table 1 (Findings 10.1.1 and 10.2.1). Further, the audit firm identified nine significant deficiencies in internal control.

The audit firm also issued a management letter to QEL identifying internal control matters and nonmaterial instances of noncompliance. Further, the audit firm reported that all prior year audit findings had been resolved, except for one finding on the vendors' lack of conflict of interest declarations.

During our desk review, we noted several issues that the mission and the audit firm will need to address in future audit reports. We also have suggestions to the mission. We provided these issues and suggestions in a memorandum to the controller dated May 7, 2021.

Since the award to the contractor had ended and USAID/Pakistan does not have any existing or planned awards with the contractor, we are not making any procedural recommendations. To address the questioned cost issues identified in the report and discussed in this memorandum, we recommend that USAID/Pakistan:

Recommendation 1. Determine the allowability of \$1,575,557 (\$1,573,877 ineligible and \$1,680 unsupported) in questioned costs as detailed in Table 1 on pages 2-3 of this memorandum and recover any amount that is unallowable.

We ask that you provide written notification of actions planned or taken to reach a management decision.

The OIG does not routinely distribute independent public accounting reports beyond the immediate addressees because a high percentage of these reports contain information restricted from release under the Trade Secrets Act, 18 U.S.C. 1905 and Freedom of Information Act Exemption Four, 5 U.S.C. 552(b)(4) ("commercial or financial information obtained from a person that is privileged or confidential").

Attachment: a/s